

1 have to support that to this Agency at some point.

2 DIRECTOR MALONE: I would not be  
3 surprised if it returned to the Agency.

4 CHAIRMAN GREER: I'll agree to  
5 the amendment. Director Kyle, do you want to  
6 comment?

7 DIRECTOR KYLE: Only that I  
8 believed that my motion should stand as it is, and  
9 I'm in agreement that the Eighth Circuit did not  
10 prohibit even though it -- when we talk about  
11 combining these elements.

12 But I will say this, I believe  
13 that in Tennessee that I have to also implement that  
14 state law. The federal law didn't stop me -- I'm not  
15 in conflict and I wasn't preempted, and it did some  
16 -- is the way to facilitate competition. If we are  
17 going to see any real competition emerge in Tennessee  
18 soon, we've got to do everything in our power to make  
19 sure that competition is fostered, and I believe with  
20 my amendment I have fulfilled my duties to both state  
21 law and federal law, so I'll let it stand.

22 CHAIRMAN GREER: Thank you.  
23 Motion passes two to one.

24 Issue 14, what is the proper  
25 method to calculate switch costs?

1                   DIRECTOR MALONE: None of the  
2 parties argued that a price for a switching port with  
3 all vertical features should not be established.  
4 Hence, a forward-looking cost of a switching port  
5 with all vertical features should be calculated. The  
6 marginal mode of the SCIS/MO assumes a switch with  
7 all features and assigns GSI to nontraffic sensitive  
8 costs of the switching port. It is my opinion that  
9 this is -- that is the -- that this approach is  
10 consistent with TELRIC methodology.

11                   I also agree with Mr. Petzinger  
12 that the use of the marginal mode avoids the need to  
13 allocate the GSI to permitted costs of individual  
14 vertical features. Under this approach, permitted  
15 costs of switching should reflect only the actual  
16 traffic-sensitive cost of a full-feature switch. To  
17 remove the GSI component of usage costs, I likewise  
18 endorse Petzinger's proposed method of adjusting the  
19 permitted cost of calculations. No other party  
20 criticized this formula.

21                   Additionally, I find that it is  
22 appropriate for the BellSouth cost study to use  
23 larger switch vendor discounts than the current  
24 respective default input values. I've concluded that  
25 the revised discount suggested by Petzinger be used

1 because since they reflect discounts available to  
2 BellSouth on a forward-looking basis and BellSouth  
3 did not refute the larger discounts than what they  
4 presented in their cost studies are available to  
5 them.

6                   Since BellSouth terminates both  
7 IDLC and analog loops into its switch ports, I also  
8 agree with Petzinger that it is appropriate to assume  
9 a combination of IDLC and analog lines terminating  
10 into switched ports; thus I must reject the  
11 assumption of the BellSouth cost study that all line  
12 terminations will be analog on a forward-looking  
13 basis. As an alternative, I recommend that the  
14 BellSouth cost study be revised to reflect the  
15 distribution of IDLC and analog line terminations  
16 calculated by the Hatfield Model for Tennessee, which  
17 is 70.38 percent IDLC and 29.62 percent analog.

18                   I likewise am not convinced by  
19 the GCG panel's testimony regarding appropriate input  
20 values for the switching cost component of the  
21 Hatfield. The GCG panel does not sufficiently  
22 explain either why the inputs supplied by AT&T and  
23 MCI are inappropriate or why their alternative values  
24 are appropriate.

25                   Therefore, I move that the price

1 of the switched port should include all features,  
2 BellSouth should rework its switched cost studies to  
3 one, use the output from the marginal mode of SCIS;  
4 two, recalculate switched usage charges per MLU with  
5 the following formula: Total switched investments  
6 less nontraffic sensitive line termination and  
7 getting started investments/over minutes equivalent  
8 of busy hours CCS; and, three, change vendor  
9 discounts -- vendor discount used as inputs in the  
10 BellSouth switched cost studies to the percentages  
11 given on line 6, page 19 of Petzinger's prefiled  
12 rebuttal testimony; and, four, assume 70.38 percent  
13 IDLC and 29.62 percent analog line terminations in  
14 calculating switching port costs.

15                   Additionally, I do not recommend  
16 any changes to the Hatfield's inputs that were  
17 suggested by BellSouth's witnesses on this issue.

18                   DIRECTOR KYLE: I can go with  
19 that recommendation. I would just like to add --  
20 this would be my clarification or add it, where  
21 you've said the price of the switched port should  
22 include all features, I would like to add with no  
23 additional charges, including no "glue" charges. And  
24 if you don't want to accept that, I'm going to put  
25 that in the record as my understanding.

1 CHAIRMAN GREER: State that  
2 again, Director Kyle.

3 DIRECTOR KYLE: Okay. The price  
4 of the switched port should include all features with  
5 no additional charges, including no "glue" charges.

6 DIRECTOR MALONE: Mr. Chairman?

7 CHAIRMAN GREER: Did you accept  
8 her amendment?

9 DIRECTOR MALONE: No.

10 CHAIRMAN GREER: Can I get a  
11 recess for three weeks?

12 DIRECTOR MALONE: How about three  
13 minutes.

14 (Recess taken from 11:43 till  
15 11:47 p.m.)

16 CHAIRMAN GREER: Director Malone,  
17 I'm going to second her amendment -- Director Kyle's  
18 amendment.

19 DIRECTOR MALONE: I will simply  
20 state that I don't think the amendment is  
21 inconsistent with the motion. The features and the  
22 switch are provided together, and so a "glue" factor  
23 for features that are provided together -- I was a  
24 little confused about the motion -- the amendment,  
25 but it is not inconsistent with the motion. So I

1 have no problems accepting the amendment, if that  
2 clarifies my motion for Director Kyle.

3 CHAIRMAN GREER: Motion passes  
4 unanimously then.

5 Issue 15, what is the appropriate  
6 level of structure -- it passes as amended. Excuse  
7 me.

8 What is the appropriate level of  
9 structure sharing to be included in the prices for  
10 unbundled network elements?

11 The evidence presented by AT&T  
12 and ACSI demonstrates that Hatfield's aerial sharing  
13 assumption is reasonable and should be reflected in  
14 the TELRIC model. Increased competition should  
15 increase the amount of aerial structure sharing. On  
16 a forward-looking basis, however, it is reasonable to  
17 assume that one other entity on the average will be  
18 sharing buried distribution facilities with  
19 BellSouth.

20 I move that BellSouth's TELRIC  
21 model be adjusted to reflect three other entities  
22 equally sharing aerial support structures, poles,  
23 with BellSouth for a total of four. Further, that  
24 the Hatfield Model be adjusted to reflect one other  
25 entity sharing the buried distribution structures

1 with BellSouth for a total of two.

2 DIRECTOR KYLE: Second.

3 DIRECTOR MALONE: I vote yes.

4 COURT REPORTER: I'm sorry?

5 CHAIRMAN GREER: He voted yes.

6 It's unanimous.

7 Issue 16, what is the appropriate  
8 level of operational support services, OSS, cost to  
9 be included in permanent prices?

10 DIRECTOR MALONE: Mrs. Caldwell  
11 on page 31 of her rebuttal testimony stated that  
12 BellSouth recommends that 20 percent fallout rate  
13 based on the fact that in the beginning of IXC  
14 ordering there was a fallout of 30 percent which has  
15 since fallen to 10 percent. In reviewing the  
16 testimony and the evidence of record on this point,  
17 I've concluded based on Landry's testimony that the  
18 UNE process is at least as complex as the  
19 interexchange access process and that a maximum rate  
20 of 10 percent is needed.

21 I additionally concluded --  
22 conclude that this percentage should be lowered to  
23 7 percent to recognize efficiencies that will be  
24 gained over time based on the arguments of Dr. Beard  
25 and Mr. Barta that OSS investments serve to improve

1 the efficiency of operations. I also conclude that  
2 if OSS costs are recovered as a nonrecurring rate  
3 there could be -- there could potentially be erected  
4 a wall of costs that effectively seals out  
5 competitive entry to the local market.

6 Accordingly, it is my position  
7 that all customers, both ILEC and CLEC, receive the  
8 benefits of Legacy systems and electronic interfaces  
9 and should bear a portion of the costs. Therefore,  
10 ILEC and CLEC customers alike should pay a recurring  
11 rate for OSS. Therefore, I move that for all cost  
12 models the OSS costs should be recovered from all end  
13 users in a recurring rate. All expenses associated  
14 with the electronic interfaces should be capitalized  
15 and recovered over the life of OSS per our  
16 depreciation recommendation -- our depreciation  
17 motion as adopted in Issue 5. I also recommend that  
18 a fallout rate of 7 percent be used in the TELRIC  
19 cost model.

20 CHAIRMAN GREER: I'll second your  
21 motion.

22 DIRECTOR KYLE: I vote yes.

23 CHAIRMAN GREER: Issue 17, how  
24 should nonrecurring costs be calculated? What  
25 inputs, if any, should be adjusted? And that's

1 basically a three- or four-parter. There's a 17B, a  
2 17C, a 17D, and a 17E.

3 Shared and common costs are not  
4 directly assignable to nonrecurring work activities,  
5 and, therefore, should be recovered through recurring  
6 prices. Removal of shared and common costs from  
7 nonrecurring rate elements should also prevent a  
8 potential barrier to entry which excessive  
9 nonrecurring charges could cause.

10 Therefore, I move that only  
11 directly assignable costs should be recovered through  
12 the nonrecurring charges. Shared and common costs  
13 should not be included in calculating nonrecurring  
14 costs and both party's models should reflect this  
15 adjustment.

16 DIRECTOR KYLE: Second.

17 DIRECTOR MALONE: I vote yes.

18 CHAIRMAN GREER: Issue 17B, what  
19 amount of OSS costs should be recovered in  
20 nonrecurring prices?

21 And my motion as a follow-up  
22 would be all OSS costs should be removed from the  
23 nonrecurring rates.

24 DIRECTOR MALONE: Second.

25 DIRECTOR KYLE: I can vote for

1 that.

2 CHAIRMAN GREER: Issue 17C, which  
3 work activities should be included in developing  
4 nonrecurring prices?

5 Consistent with a 7 percent  
6 fallout rate, all activities associated with OSS be  
7 adjusted accordingly, specifically concerning the  
8 work activities, local customer service center, work  
9 management center, and access customer advocate  
10 center. Both parties need to adjust their models to  
11 reflect the 7 percent fallout rate. Also BellSouth  
12 should modify their cost model to reflect only three  
13 minutes of work activity per order at the LCSC when  
14 an order falls out.

15 DIRECTOR MALONE: Second.

16 DIRECTOR KYLE: I vote yes.

17 CHAIRMAN GREER: 17D, what amount  
18 of costs associated with cross-connect should be  
19 recovered in nonrecurring prices?

20 AT&T states that BellSouth's  
21 TELRIC model captures all cross-connect costs and  
22 recurring prices, and any nonrecurring charges for  
23 cross-connect would be double recovery, but they do  
24 not provide any evidence that BellSouth has actually  
25 double recovered a portion of cross-connect -- that's

1 a mouthful -- a portion of cross-connect costs. Too  
2 much alliteration. Therefore, I feel that there are  
3 no required cost input adjustments for the recovery  
4 of cross-connect costs.

5 DIRECTOR KYLE: Second.

6 DIRECTOR MALONE: I vote yes.

7 CHAIRMAN GREER: 17E. What  
8 amount of costs associated with testing of unbundled  
9 network elements should be included in calculating  
10 nonrecurring prices?

11 All costs for loop testing should  
12 be removed from the nonrecurring rates. Testing is  
13 performed over the life of the loop. Therefore, the  
14 cost associated with all loop testing should be  
15 recovered and recurring prices as part of ongoing  
16 maintenance of the loop. Therefore, BellSouth should  
17 adjust its cost model to recover all costs associated  
18 with testing and recurring rates.

19 Since AT&T's model recovers all  
20 costs associated with testing and recurring rates,  
21 their model needs no adjustment.

22 DIRECTOR KYLE: I'll second.

23 CHAIRMAN GREER: It is -- well,  
24 I've got one more sentence. It is also important to  
25 note that loop testing costs are already being

1 recovered through the network maintenance factor.

2 Now you may second.

3 DIRECTOR KYLE: Second.

4 DIRECTOR MALONE: I vote yes.

5 CHAIRMAN GREER: Issue 18, what  
6 is the appropriate level of disconnect costs to be  
7 included in the nonrecurring price given a soft dial  
8 tone environment?

9 DIRECTOR MALONE: BellSouth's  
10 nonrecurring installation charges include cost of  
11 disconnection. BellSouth states that disconnect  
12 costs should be included and collected with the  
13 installation costs because it incurs costs to  
14 disconnect the customer. BellSouth, however, is not  
15 opposed to charging disconnect at the time of  
16 disconnect.

17 AT&T-MCI state that the cost to  
18 disconnect has been modeled separately in order to  
19 model accurately an entrant's nonrecurring costs  
20 depending on whether a new entrant chooses to  
21 disconnect a feature or function at the time an end  
22 user cancels service or maintain the service feature  
23 or function installed for a future customer.

24 Presently ILECs commonly  
25 disconnect UNEs by software command only. This

1 activity is referred to as soft dial tone and  
 2 requires no manual work. Soft dial tone is a term  
 3 used to describe the service which is left in place  
 4 to allow the customer to dial 911 or connect to the  
 5 ILEC to establish new service.

6 The nonrecurring installation  
 7 charges ILECs propose to charge new entrants  
 8 invariably reflect the cost of physical reconnection  
 9 regardless of whether the facilities in question were  
 10 ever physically connected in the first instance. The  
 11 ILEC should only receive the revenue for the  
 12 disconnect at the time the actual disconnection  
 13 occurs.

14 I move that disconnect costs  
 15 should be separated from installation costs and  
 16 assessed at the time of disconnection. CLECs should  
 17 not be required to pay for disconnection unless that  
 18 activity is actually performed. Therefore,  
 19 nonrecurring costs should be separated by  
 20 installation and disconnection, and BellSouth should  
 21 adjust its model accordingly.

22 Since AT&T has modeled the cost  
 23 of disconnection separately, its model and the MCI  
 24 model need no adjustment.

25 Given a soft dial tone

1 environment where service is left in place, there  
2 should be no disconnection cost for physically  
3 disconnecting an access line; therefore, BellSouth's  
4 cost model should be adjusted to remove the costs  
5 associated with physically disconnecting a customer  
6 in a soft dial tone environment.

7 CHAIRMAN GREER: I'll second.

8 DIRECTOR KYLE: I vote yes.

9 CHAIRMAN GREER: Issue 19, what  
10 approach should be adopted for calculating prices for  
11 physical collocation? What inputs, if any, should be  
12 adjusted?

13 AT&T and MCI have developed a  
14 model that would base the cost on a modern efficient  
15 building designed on a best practices approach to  
16 locating BellSouth and CLEC equipment in a new  
17 building. This follows the FCC approach to estimate  
18 the forward-looking cost of a new theoretical network  
19 with only the locations of the present COs being  
20 fixed.

21 BellSouth takes the position that  
22 the competitors are not taking the real word into  
23 account with their proposals. By its very nature  
24 BellSouth asserts that collocation within its  
25 existing buildings and CLECs should pay what it costs

1 to build, reconfigure, or rehabilitate its buildings  
2 to accommodate them. However, BellSouth's rates  
3 appear way out of line with the independent  
4 construction guidelines of the RS Means Company.  
5 BellSouth did little to support its rates, which  
6 could have a detrimental effect on the increase of  
7 competition.

8 Therefore, I am recommending that  
9 the Authority adopt the AT&T-MCI collocation approach  
10 for calculating the rates for physical collocation.  
11 The model should be adjusted to increase the width of  
12 the common area space in accordance with the Standard  
13 Building Code as testified to by BellSouth Witness  
14 Redmond from 7.7 feet 6 inches to 8.8 inches.

15 DIRECTOR KYLE: I will second  
16 that and just note that this does not suggest that  
17 physical location is or is not required, just adopted  
18 with this cost model when -- if collocation occurs.

19 DIRECTOR MALONE: I vote yes.

20 CHAIRMAN GREER: It passes  
21 unanimously.

22 DIRECTOR KYLE: I just, again,  
23 want to thank the staff for the long hours and hard  
24 work. This is some of the best work I have ever seen  
25 since I was here or the Agency before, and my hat is

1 really off to you. Thank each and every one of you.

2 CHAIRMAN GREER: I thank all of  
3 you for your hard work. Thanks again to the staff.  
4 You've done yeoman's work, and we all appreciate it.

5 There being no further business,  
6 this meeting is adjourned.

7  
8 (The Directors' Conference  
9 adjourned at 12:00 p.m.)

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REPORTER'S CERTIFICATE

STATE OF TENNESSEE )

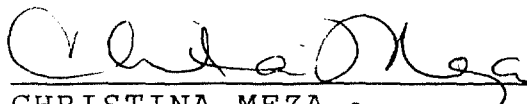
COUNTY OF DAVIDSON )

I, CHRISTINA MEZA, Court Reporter and  
Notary Public in and for the State of Tennessee at  
Large,

DO HEREBY CERTIFY that the foregoing  
proceedings were taken at the time and place set  
forth in the caption thereof; that the proceedings  
were stenographically reported by me in shorthand;  
and that the foregoing proceedings constitute a true  
and correct transcript of said proceedings (pages 1  
through 48) to the best of my ability.

I FURTHER CERTIFY that I am not related to  
any of the parties named herein, nor their counsel,  
and have no interest, financial or otherwise, in the  
outcome or events of this action.

IN WITNESS THEREOF, I have hereunto affixed  
my official signature and seal of office this 30th  
day of June, 1998.

  
CHRISTINA MEZA -  
Notary Public in and for the  
State of Tennessee at Large

My Commission Expires:  
January 20, 1999